MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BAW4624 – TAX COMPLIANCE

(All Sections / Groups)

3 JULY 2023
9 a.m. – 12 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 15 pages excluding the cover page with **FIVE** (5) Questions only.
2. Attempt **ALL** questions in English. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

All questions are based on the Income Tax Act 1967 (as amended), Real Property Gains Tax Act 1976 (as amended), Sales & Service Tax Act 2018 and Stamp Act 1949 (as amended) and legislations passed up to the year 2022.

QUESTION 1

You are employed by InfoBiz & Co., a firm of ICAEW Chartered Accountants as a tax accountant. Mr. Osman is one of your clients, whom you have known for years. Mr Osman owns a retail store in Taman Kerjasama, Melaka. While performing a tax computation for Mr Osman's business, you discovered that Mr Osman has deducted some personal expenses against his business income for the year of assessment 2022. You raised this matter with Mr Osman; however, no action has been taken.

Two days ago, Mr Osman asked a favour of you. This was to provide him with his ex-wife's tax information. He promised to convince your boss to give you a promotion if you agreed to help him.

Required:

Based on the above scenario:

(i) Identify two (2) fundamental principles and two (2) types of ethical threats that are applicable to the above scenario.

(4 marks)

(ii) State THREE (3) actions that you should take to resolve the issues above.

(3 marks)

[Total: 7 marks]

QUESTION 2

(a) VNS & Co. (VNS), is an accounting firm which has been a taxable person since December 2018. VNS invoiced its customers Abby on 15 January 2022 and Billy on 29 March 2022. Abby paid the invoice amounting to RM30,000 on 21 April 2022, whereas Billy paid RM45,000 on 28 July 2022 to VNS.

Required:

Advise VNS the amount of the service tax and the due date to submit the service tax return (SST-02) to Royal Malaysian Customs Department (RMCD) in respect of the invoices paid by Abby and Billy. Show all workings.

(4 marks)

Continued...

(b) Dyson Sdn Bhd (DSB) is a taxable person under the Sales Tax Act 2018. It issued the following invoices and official receipts:

No	Invoice date	Payment receipt date	Amount (RM)
1	28/2/2022	27/5/2022	9,000
2	29/3/2022	28/6/2022	15,000
3	19/4/2022	18/7/2022	20,000
4	30/4/2022	29/7/2022	11,000
5	31/5/2022	30/8/2022	8,000

The rate of sales tax is 10% of sales value. DSB paid the sales tax for the period of March to April 2022 on 8 August 2022.

Required:

(i) Compute the sales tax payable for the period of March2022 to April 2022 and state the due date by which the sales tax is payable. Show all workings.

(3 marks)

(ii) State the amount of penalty that would apply to the late payment of sales tax on 8 August 2022 for the taxable period of March 2022 to April 2022. Show all workings.

(3 marks)

(c) Mr Pang, a Malaysian resident, who is married to Jane, is in the process of acquiring an office building in Puchong Utama, Selangor. The building costs RM789,000, which is below the market price of RM889,000, because the current owner needs a quick sale to avoid foreclosure by a lender. Mr Pang would like to know the stamp duty he will have to pay in connection with the acquisition of the office building.

Required:

(i) Compute the stamp duty payable by Mr Pang on the purchase of the office building assuming the purchase takes place on 1 August 2022.

(3 marks)

(ii) Assume Mr Pang intends to transfer his office building to his wife, Jane. Discuss whether the transfer will attract any stamp duty obligations.

(2 marks)

Continued...

(d) The UK's National Insurance scheme allows payment of contributions to build up entitlement to certain social security benefits, such as the State Pension.

Required:

Identify TWO (2) contributors of the UK's National Insurance.

(1 marks)

[Total: 16 marks]

QUESTION 3

(a) Leo had acquired a double storey house from Matt for RM367,000. He signed the sales and purchase agreement on 17 August 2019 and settled the payment on 1 November 2019. He had taken a loan for this purpose. The house ownership was then transferred to his name on 27 December 2019. In acquiring the house, Leo incurred stamp duty of RM6,340 and legal fees of RM7,340 on the sales and purchase agreement.

Leo invested RM92,000 in the house's renovation after purchasing it. He received RM26,000 in compensation from the insurance company after a fire destroyed a portion of the house on 15 April 2020. The house was flooded on 26 August 2020, and the developer gave him RM17,000 as compensation. Additionally, he was able to receive a RM11,000 insurance reimbursement from his insurer.

On 31 March 2021, Leo was approached by a buyer, Albert to purchase the house. Albert submitted an application for a bank loan after paying a deposit of RM10,000 to Leo. However, Albert's application was rejected, and the deposit was forfeited by Albert to Leo.

Leo's ex-wife had filed a claim for the ownership of the property. Leo then engaged a lawyer to defend the title of the house. The legal fee was RM18,000.

Jimmy purchased the property from Leo for RM480,000, and the sales and purchase agreement was signed on 20 May 2022. The payment was fully settled on 15 July 2022 and the ownership was transferred to Jimmy on 21 August 2022.

The following expenses were spent by Leo to find a buyer for the house:

Item	RM
Valuation fee	6,500
Brokerage fee	14,400
Advertisement expenses	1,200

Leo had paid RM44,040 in interest on the bank loan that he took out to purchase the house.

Continued...

Required:

In relation to the Real Property Gains Tax 1976 (as amended), compute the chargeable gain arising from the disposal of the property. Indicate 'nil' for item(s) with no transaction value if any. Show all workings.

(8 marks)

(b) Jeff was a Malaysian who had a permanent home in Kedah Malaysia. He was an entrepreneur who owned a tuition centre and food truck business. The following information is in respect of the income of Jeff for the year ended 31 December 2022.

Tuition centre	**RM**
Adjusted income	100,000
Capital allowance	20,000
Balancing charge	5,000
Unabsorbed capital allowance from basis year 2021	2,000
Unabsorbed adjusted loss from basis year 2021	15,000
Food truck business	
Adjusted loss	(18,000)
Balancing charge	6,000
Capital allowance	7,000
Adjusted rental income received from a condominium in Bangsar, Selangor.	27,600
Business income from Germany, remitted on 15 April 2022	50,000

Other information:

i. Dividend income (single-tier) was credited to Jeff's bank account on 3 March 2022.
ii. Interest income of RM2,000 was received from Jeff's fixed deposit account on 28 February 2022.
iii. Jeff spent RM19,000 on care services provided by a nursing home located in Selangor for his parents on 30 June 2022.
iv. Jeff transferred RM10,000 to the bank account of his former wife, Lily, on 31 March 2022 as alimony payment.

On 31 August 2022, Jeff passed away at Hospital Besar, Melaka due to a heart attack. Since Jeff is a divorcee and has no children from his previous marriage, his brother, Roy was appointed as the executor of his estate under his will.

Continued...

Roy was a non-resident in Malaysia in the year of assessment 2022. He was paid RM500 per month starting from 1 September for his services as the executor of the estate. Jeff's parents, Albert and Betty were paid an annuity of RM5,000 each per annum out of the income of the estate.

Required:

Compute the chargeable income of Jeff and of the estate of Jeff for the year of assessment 2022. Round-up all figures. Show all relevant workings.

Note: Indicate "nil" or "exempt" for item(s) with no transaction value in correct column (deceased / executor).

(10 marks)

(c) Mr Lee transferred his semi-detached house to his grandson, Dickson, who was aged 28 and unmarried. The house is located in Subang Jaya, Selangor and rented out to a tenant. Every month, Mr Lee received rental of RM4,500 from the tenant in year 2022. An assumption is made that the settlement is irrevocable and Mr Lee used the rental income for the year of assessment 2022 for his own purposes.

Required:

Discuss who will be assessed to income tax on the rental income derived from the semi-detached house for the year of assessment 2022.

(3 marks)

[Total: 21 marks]

QUESTION 4

Winnie is a Malaysian tax resident and works as a senior finance manager at Space Sdn. Bhd. (Space) under a five-year contract effective from 1 May 2021. Her monthly salary is RM15,000 and she contributes 11% of it into her Employee Provident Fund account every month. She received a bonus equivalent to two months' salary on 28 February 2022. Winnie married Alvin in 2021. Diana, 10 years old, is the child from of Winnie's previous marriage. Winnie gave birth to Dylon in March 2022, one year after she married Alvin.

Winnie was given a Toyota car costing RM125,000 (with fuel) from 1 May 2021 onwards. Winnie underwent caesarean surgery in March 2022 when she gave birth to Dylon, and the medical bill of RM12,000 is covered under her company's group insurance scheme. In addition, she was also provided with a semi-furnished condominium, with air-conditioner, curtain and carpets by her employer for the whole year of 2022. The monthly rental of the house was RM2,200. Throughout the year, the employer provided Winnie childcare and dental benefits of RM6,000 and RM500 respectively.

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Other information about Winnie in year 2022 is as follows:

1. During the year, Winnie paid a life insurance premium of RM2,500 for herself.
2. She spent RM600 to acquire an antique keychain for herself.
3. She spent RM3,000 on baby diapers and breast-feeding equipment (first-time purchase) worth RM1,500 for her son Dylon.
4. She paid RM1,200 on internet subscription fees (under Winnie's name).
5. She purchased a new Vivo phone worth RM1,000 for herself. She also bought books and magazines costing RM300.
6. She incurred RM10,000 on her parents' medical expenses of which she was able to produce receipts certified by medical practitioner of RM7,500 only. Both of her parents are tax residents for the year of assessment 2022.
7. Winnie's 10-year-old daughter, Diana is currently studying in local primary school. She spent RM1,000 every month on Diana's daily maintenance.
8. She brought her family to Pulau Langkawi and Pulau Tioman for a holiday in December 2022. She spent RM 3,000 on accommodation at hotels registered with the Commissioner of Tourism under the Tourism Industry Act 1992.
9. She spent RM1,500 on Covid-19 detection tests for herself and her husband, Alvin.
10. She contributed RM3,000 to a private retirement scheme from Public Mutual.

Winnie's husband, Alvin, is an ICAEW Chartered Accountant. Alvin set-up his own practice with his best friends, Benjamin and Calvin and named their firm as ABC & Co.

The partnership accounts of ABC & Co for the year ended 31 December 2022 are as follows:

	RM
Revenue	792,070
Less: Cost of sales	(177,800)
Gross profit	614,270
Less: Partners' salaries	(168,000)
Interest on capital	(17,500)
Depreciation	(29,000)
Other revenue expenses	(160,000)
Net profit for the year	239,770

Continued...

Add: Rental income	12,000
	251,770
Less: Approved donation	(3,600)
Net profit for the year	248,170

The partnership agreement provides the following:

1. Monthly salaries of the partners are as follows:

	RM
Alvin	5,000
Benjamin	4,500
Calvin	4,500

2. Interest on capital was calculated at 5% per annum. The respective capital contribution of the partners is as follows:

	RM	RM
Alvin (no change during the year)		150,000
Benjamin (no change during the year)		100,000
Calvin		
As at 1 January 2022	60,000	
Additional capital on 1 May 2022	60,000	
As at 31 December 2022		120,000

3. Partnership profits were shared as follows:

Alvin	1/3
Benjamin	1/3
Calvin	1/3

4. Capital allowances for the year of assessment 2022 were RM30,000.

5. Unabsorbed business losses brought forward from the previous year of assessment and available to each individual partner are as follows:

	RM
Alvin	15,000
Benjamin	15,000
Calvin	15,000

Continued...

Required:

(i) Calculate the chargeable income by Winnie under separate assessment after considering all taxable income and reliefs available under the Income Tax Act 1967 (as amended) for the year of assessment 2022. Assume Winnie claimed the child reliefs. Round all figures to the nearest RM.

Note: All items stated in the question are to be included in the computation. Where the item is not taxable or deductible, indicate 'nil' or "exempt' in the computation.

(22 marks)

(ii) Compute the provisional adjusted income of ABC& Co. for the year of assessment 2022. (6 marks)

(iii) Compute the divisible income of ABC &Co. for the year of assessment 2022. (2 marks)

(iv) Compute the total income of each partner for the year of assessment 2022. (10 marks)

[Total: 40 marks]

QUESTION 5

Rinna Sdn. Bhd. (Rinna) is wholesaler with a paid-up capital of RM2.6 million. Its main business is to supply a wide range of electrical equipment to retail stores throughout Malaysia. The company prepares its accounts to 31 December annually. Rinna's statement of profit or loss for the year ended 31 December 2022 is as follows:

Rinna Sdn. Bhd.
Statement of profit or loss for the year ended 31 December 2022

	Note	RM	RM
Sales	1		5,800,000
Less: Sales returns	2		(2,888,000)
Net sales			2,912,000
Less: Cost of sales	3		1,313,000
			1,599,000
Less: Expenses			
Remuneration	4	644,000	

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Selling and administration costs	5	384,000	
Professional fees and interest charges	6	129,000	
Miscellaneous expenses	7	400,000	
Foreign exchange loss/gain	8	71,000	(1,628,000)
Net loss before taxation			(29,000)

Notes to the accounts:

1. Sales
   The directors took items worth RM135,000 for their own use. These goods have a market value of RM 250,000. This transaction has not been taken into account.

2. Sales returns
   Customers returns for defective goods were RM1,510,000. The amount was incorrectly listed in the accounts as RM1,210,000.

3. Cost of sales include:
   - Provision for inventory obsolescence was RM490,000.
   - Rinna incurred RM200,000 to acquire a proprietary right in order to become the sole distributor of an AI floor cleaning machine produced in Singapore.

4. Remuneration includes:
   - Salary of certified disabled employee of RM21,600
   - Staff meals and refreshments of RM6,000
   - Amount allocated to the company's provision for retirement benefits account was RM100,000.

5. Selling and administration costs include the following:
   - Expenditure of RM90,500 incurred on advertising in Malaysia to promote the products of the company.
   - Technical fees of RM88,000 paid to Time Ltd, a non-resident Australian company (which the withholding tax was not deducted) for work carried out in Malaysia.

6. Professional fees and interest charges include the following:
   - Statutory audit fees of RM35,000
   - Secretarial fees and tax filing fees of RM10,000
   - Legal costs of RM21,000 for contesting a charge that the annual general meeting was in violation of the Companies Act

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- Interest of RM35,000 is related to a loan taken to purchase the machine used in the business.
- Interest of RM27,000 paid to Reliance Finance Bhd for a loan obtained to invest in 35,000 units of Berjaya Bhd shares.

7. Miscellaneous expenses include the following:

	RM
- Leave passage to Hong Kong for a production manager and his family	29,000
- Freight charges	194,000
- Travelling allowance for the company's directors	30,000
- General provision for doubtful debts	20,000
- Specific provision for bad debts	10,400
- Losses due to theft of inventories	21,000
- Fire insurance premium for company's premises	19,000

8. Foreign exchange loss/gain include:

	RM'000
Unrealised loss due to repayment of foreign loan for buying an equipment	22
Realised losses on inventory acquisition	59
Unrealised gain from trade creditors	(10)
	71

Other information:

(i) Unabsorbed business loss brought forward from previous year of assessment amounted to RM18,000.

(ii) Capital allowances computed for the current year of assessment amounted to RM126,000.

Required:

Commencing with the net loss before taxation figure, compute the chargeable income by Rinna for the year of assessment 2022.

Note: You should indicate by the use of the word "nil" or "exempt" for any item referred to in the question for which no adjusting entry needs to be made in the final computation.

[Total: 16 marks]

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APPENDIX
TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2022.**

Category	Chargeable Income	Calculations (RM)	Rate %	Tax(RM)
A	0 - 5,000	On the First 5,000	0	0
		On the First 5,000		0
B	5,001 - 20,000	Next 15,000	1	150
		On the First 20,000		150
C	20,001 - 35,000	Next 15,000	3	450
		On the First 35,000		600
D	35,001 - 50,000	Next 15,000	8	1,200
		On the First 50,000		1,800
E	50,001 - 70,000	Next 20,000	13	2,600
		On the First 70,000		4,400
F	70,001 - 100,000	Next 30,000	21	6,300
		On the First 100,000		10,700
G	100,001 - 250,000	Next 150,000	24	36,000
		On the First 250,000		46,700
H	250,001 - 400,000	Next 150,000	24.5	36,750
		On the First 400,000		83,450
I	400,001 - 600,000	Next 200,000	25	50,000
		On the First 600,000		133,450
J	600,001 - 1,000,000	Next 400,000	26	104,000
		On the First 1,000,000		237,450
K	1,000,001 - 2,000,000	Next 1,000,000	28	280,000
		On the First 2,000,000		517,450
L	Exceeding 2,000,000	Next ringgit	30	.....

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- **Reliefs for the Year of Assessment (YA) 2022**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief/payment of alimony	4,000
Disabled spouse relief (additional relief)	5,000
Medical expenses for parents	8,000
1. Medical expenses for serious diseases 2. Vaccination expenses for self, spouse and child. (Restricted to RM1,000) 3. Medical expenses for fertility treatment for self or spouse 4. (i) Complete medical examination for self, spouse, child as defined by the Malaysian Medical Council (MMC). (ii) COVID-19 detection test including purchase of self-detection test kit for self, spouse, child. (ii) Mental health examination or consultation for self, spouse or child. (Restricted to RM1,000)	8,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	350
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Additional lifestyle- purchase of personal computer, smartphone or tablet for self, spouse or child	2,500
Healthy lifestyle-purchase of sports equipment; rental or entrance fee to any sports facility; registration fee for any approved sports competition	500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten for a child aged 6 years and below	3,000
Payment for accommodation at premises registered with the Commissioner of Tourism and entrance fee to a tourist attraction	1,000

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- **Rebates**

Rebates	RM
Chargeable income <= RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

- **Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual prescribed benefit of motorcar	Annual prescribed benefit of petrol
RM	RM	RM
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

- **Prescribed value of household furnishings, apparatus and appliances**

Category	Type of Benefit	Annual Prescribed value of BIK provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: • air-conditioners • curtains and alike • carpets	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

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Other benefits	RM per month
Household servant	400
Gardener	300
Driver	600

- **Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery (general)	Office Equipment, Furniture & Fittings, Others	Industrial Building	Small value assets
Initial allowance	20%	20%	20%	10%	
Annual allowance	20%	14%	10%	3%	
					100%

- **Sales and service tax**

	Rate %
Sales tax	10
Service tax	6

- **Stamp duty**

Rates of duty under the First Schedule
Conveyance, assignment, transfer or absolute bill of sale

	Rate %
Sale of property - from 1.7.2019 onwards	
First RM100,000	1
RM100,001 to RM500,000	2
RM500,001 to RM1,000,000	3
>RM1,000,000	4
House loan agreement	0.5
Transfer of shares or marketable securities	0.3
Transfer of shares or marketable securities by using contract note	0.1

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- **Real property gains tax**

DISPOSAL PERIOD	TAX RATE FOR YEAR OF ASSESSMENT 2022		
	PART I Other than Part II and Part III [eg: individual, partnership, executor of the estate of a deceased person who is a citizen or a permanent resident]	PART II Company incorporated in Malaysia or trustee of a trust	PART III Individual who is not a citizen and not a permanent resident, or an executor of the estate of a deceased person who is not citizen and not a permanent resident, or a company not incorporated in Malaysia.
Disposal within 3 years after the date of acquisition	30%	30%	30%
Disposal in the 4th year after the date of acquisition	20%	20%	30%
Disposal in the 5th year after the date of acquisition	15%	15%	30%
Disposal in the 6th year after the date of acquisition	0%	10%	10%

End of paper.